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National Wholesale Lumber Dealers

Collective buying of fire insurance

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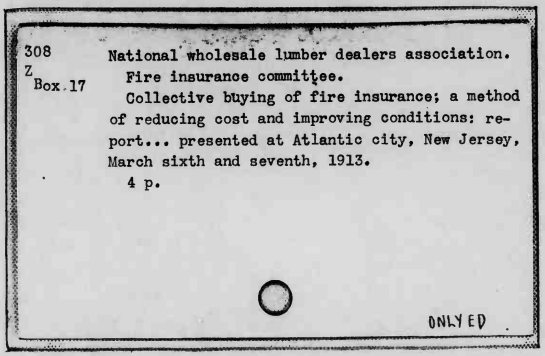

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National wholesale lumber dealers association.
Fire insurance committee.
Collective buying of fire insurance; a method of reducing cost and improving conditions: report... presented at Atlantic city, New Jersey, March sixth and seventh, 1913.
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JUN 6 1913

COLLECTIVE BUYING OF FIRE INSURANCE

A METHOD OF REDUCING COST AND IMPROVING CONDITIONS

REPORT OF THE FIRE INSURANCE COMMITTEE (GEORGE H. HOLT, CHAIRMAN) OF THE

NATIONAL WHOLESALE LUMBER DEALERS ASSOCIATION

PRESENTED AT ATLANTIC CITY, NEW JERSEY, MARCH SIXTH AND SEVENTH, 1913

Dec 1, 1915. MS

REPORT OF
FIRE INSURANCE COMMITTEE

The upheaval in the Department of Insurance during the past year has been so momentous, and is still extending at such a rate, that it is quite impossible to cover the subject within the limits of a Committee Report.

At this time more than thirty Legislatures are in session, and in most of them bills are being considered or have been passed with the purpose of regulating or absolutely controlling the business of fire and other kinds of insurance.

More than six hundred bills have already been presented, and it is known that others are still to be presented.

The subjects covered are so various, and the remedies proposed are so numerous, and often conflicting, that it is impossible to summarize them in any condensed form. The one fact which stands out with perfect distinctness is that public sentiment has become aroused and is determined to make itself felt. The insurance interests can no longer maintain an air of superior virtue and wisdom and of injured innocence, because it is their methods and system, and the evils for which they are directly responsible that are the object of attack, not only in the Legislatures but in the courts.

In Pennsylvania, the Commonwealth has secured a decree against the Board of Underwriters of Pittsburgh. In Cleveland, the Grand Jury has indicted the Executive Committee of the Board under the Valentine Law. In Cincinnati, actions for damages against the underwriters have been brought under the same law. If these actions are successful, they will be followed by suits for damages throughout the State amounting to ruin to the insurance people. In South Carolina, the Insurance Commissioner refuses to renew licenses of members of the S. E. Tariff Association and insists that the companies test their rights in the courts. New York has passed a number of measures giving the State still further control of the business, and the revelations which have been made by Fire Commissioner Johnson in his report on Incendiarism, and by MacFarlane in his series of articles upon Arson in Collier's, fully justify the passing of such measures.

From Maine to California, and from Minnesota to Texas, the problems of Insurance are under scrutiny, and the more they are investigated the more certain it becomes that the old order of things must give way. The present system has been condemned—the only question is, what shall take its place?

EXPOITATION OF FIRE FOR PROFIT.

Every one recognizes the commercial necessity for insurance. The tendency is even pronounced to go to the length and make it compulsory. That is a long step on the road to State or National Insurance. The ventures into the field of life insurance by the State will hardly be confined to that field when it is discovered that fire insurance can be standardized and brought to an even more exact and safe basis than life insurance. The

individual absolutely must die, but property ought not to burn, and would not burn at more than a quarter of its present rate, if the public interest were given first consideration. The exploitation of fire for profit must be controlled in the interest of the State and the Nation.

Two years ago the man who would have openly charged the insurance fraternity with responsibility for perpetuating fire waste for the sake of the profit which they make out of it would have been denounced as a malicious vilifier. Now the Reports of Investigation Committees and Insurance Commissioners and Fire Marshals and the testimony of important underwriters in cold print and under oath, deliberately state that to be the fact. The underwriters in their organized capacity and some individuals of the "Bourbon" variety, attempt to deny that it is a fact, but their arguments and their illustrations are not convincing. They may delay or sidetrack the reformation temporarily, but the steam roller will go over them, just the same.

The pity of it is, that it would be far better for everybody if the "Bourbons" could be side-tracked, and the men of broader vision and modern views could take the leadership. In that way only can the private exploitation of fire insurance be perpetuated. Along any other way, the business is doomed. It will become a State or National monopoly.

INSURANCE LOBBY.

A few years ago the business world was shocked to learn through the investigations of the Hughes Committee and others that the insurance interests maintained lobbyists in the various Legislatures to control insurance legislation in their interest.

To-day that crude method has given place to a permanent, highly paid, "Department of Publicity and Legislation," having consolidated control of the purse strings and influence of the entire insurance combination. It makes no secret of its purpose to secure the support of the newspapers. It urges its people to "Cultivate" the newspaper men. The amount of advertising paid for by the insurance companies is in evidence; whether it has any "influence" upon the newspapers or not is a matter of inference.

DISCREDITING LUMBER.

Recently the lumbermen have begun to realize that the consolidated power of the companies is being used to discredit lumber, and the use of wood for any purpose. It has promulgated building codes and restrictions which are being pressed upon cities for adoption. It does not stop with legitimate arguments, but makes unjustifiable attacks upon our industry. The movement has succeeded to such an extent in cities that property owners and architects have discovered that the new enterprises and population are settling in the smaller towns where such restrictions are not enforced. To check that tendency they are making a concerted effort to have the same restrictions made state-wide, and then nation-wide, so that unrestricted cities and States may not grow at the expense of those that are restricted.

Lumbermen are not yet awake to that peril to their industry. It is in their power to remove or abate it by methods similar to those which the insurance companies use, viz.: Consolidated (or collective) influence.

COLLECTIVE INFLUENCE.

The lumber industry is as wide spread as the insurance business, and of greater commercial power, but it does not use that power collectively. It allows it to run to waste in driblets.

There are laws against trusts, but no laws as yet against "collective bargaining." Recently mail order houses having a buying capacity of $75,000,000 per annum have "bunched" that capacity, and established a buying department. The possibilities of such a department are very suggestive. Especially to lumbermen.

The cypress mill owners have consolidated their buying of insurance and have already succeeded in placing their property in a distinct and preferred class, and at a reduction of cost. This is one step in the way of progress, but it does not reach the goal.

COMBINED POWER.

The combined figures of the lumber industry are staggering. Consider what it means that in the forest products end of the business there are more than 50,000 saw-mills with an annual capacity of more than forty-five billions of feet, worth at point of production over $15.00 per thousand. That amounts to 675,000,000 of dollars. Other products bring the total to $1,250,000,000 according to the census of 1909.

Then consider the value of the mill properties, stores, buildings, railroads, equipment of all sorts, stocks of merchandise and supplies, etc., in addition to that vast value of raw products.

Think of the values in secondary processes, such as planing mills, interior finish, box factories, car works, furniture, vehicles, etc., numbering fifty-one distinct classifications in the census.

Think of the values in pulp and paper and chemical and cooperage and veneer plants.

The imagination cannot grasp the magnitude of the insurable values which are directly and indirectly dependent upon or identified with the lumber industry.

THE ARMY OF INTERESTED BUYERS.

Think if the influence of the vast army of operators and employees owning houses and household goods and personal property, all insurable, and largely insured, and a "preferred" class of business for the insurance companies.

Our industry is first or second in importance in more than forty States.

The collective buying power of this group is of overwhelming significance. The question is, can it be consolidated and made effective? A plan has been devised and presented to your Committee and will be submitted to your association for consideration.

Before considering this proposal, it may be well to take a hurried glance at what has been accomplished, and at the plan now in operation, and consider whether anything different is desirable.

INEFFECTIVE METHODS.

Owners of large properties and values have given the subject much thought, and have brought to bear their financial strength, organization and influence to secure special benefits for themselves, but few if any of them have secured anything approaching the low cost secured by other industries having equivalent hazards.

The average owner is penalized more than the large owner by so much as he is outclassed. Collective buying would correct that handicap.

The average owner has grasped at the straw held out by the mutual and other companies specializing in lumber and woodworking risks. But this cannot be very important relief, because the total volume of insurance carried by such companies amounts to less than one per cent. of the total amount carried by stock companies doing a general business. One per cent. cannot seriously incommode or control ninety-nine per cent.

~~the little companies. The cost of bankrupting one per cent. of the volume of insurance special concessions which would make the business unprofitable, even if it did not bankrupt~~

In fact, the ninety-nine per cent. make a play-thing of the class insurance companies. At any time they can rob them of their business by rate wars or rate discrimination or

special concessions which would make the business unprofitable, even if it did not bankrupt the little companies. The cost of bankrupting one per cent. of the volume of insurance

would not be felt by the larger companies. They tolerate the competition so long as it remains insignificant, and so long as it does not antagonize their system too much. They are content to coddle the infant, because they know how to stunt its growth and keep it harmless.

The attempt of the class insurance companies to enter the general field will be counteracted by insidious methods, well known, and well worn by use.

This condition of ineffective competition is not opposed by the big companies, because it quiets the crying child. It is a morsel thrown to the dog.

Such competition is not effective from the standpoint of the buyer of insurance because it is too weak to serve his purpose. It also lacks the incentive. What the class insurance company manager fears is not fires, but a reduction of rates by the big companies. It is that very reduction of rates that the buyer of insurance desires to bring about.

There is also the constant risk that the small company will be cripled just when its indemnity is most sorely needed, and at best its rates are predicated upon or adopted from the stock companies rates and those rates are too high. This is shown by the actual burning ratio experienced by the lumber insurance companies. Reliance, therefore, cannot be placed upon class insurance companies.

UNFITNESS.

The small companies sometimes complain that rates are too low rather than too high, tested by their showing of small profits. The explanation is this: The big companies get more than their share of the best risks, have a better average distribution of hazard, and have a greater volume and diversity of business.

The trouble is not with the rates, but with the unfitness of the small company, under existing conditions.

COLLECTIVE BUYING.

The remedy proposed is consolidated or "collective" buying of insurance.

The method, giving a committee of buyers of insurance (not sellers) authority to supervise and place (buy) the insurance for the group.

This would lower the cost of getting the business to the companies, result in a better distribution of the risks and decrease the fire loss by eliminating the moral hazard.

It would separate such a group of risks from the mass of poor and "rotten" risks and secure recognition of its just deserts.

The details of the plan need not be given at length here.

All that is necessary as a start is to give the Board of Directors instructions to appoint a competent committee, with power to act.

That Committee would consider all plans submitted, or which it might devise, and present its conclusions to the members in proper shape for them to take action, with full information before them. There is not time at a convention to give the details of this subject proper consideration.

ADJUSTMENTS.

The same Committee might well be empowered to represent all members in the adjustment of any fire loss. This would be a most helpful and profitable function, and be very attractive to members.

The lumber insurance companies could count upon friendly treatment at the hands of such a committee and the benefit to all interests would show up in a very short time.

There are many problems of insurance other than fire which deserve consideration, but there is not time at this meeting to deal with them.

Respectfully submitted,

GEORGE H. HOLT,
Chairman.

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